SaskTel

Financial Statements of

SASKATOON 2 PROPERTIES LIMITED PARTNERSHIP

December 31, 2005

KPMG LLP
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AUDITORS' REPORT TO THE LIMITED PARTNERS

We have audited the statement of financial position of Saskatoon 2 Properties Limited Partnership as at December 31, 2005 and the statements of operations, limited partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
January 19, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Statement of Operations

For the year ended December 31, (Thousands of dollars)	2005	2004
Operating revenues	$3,932	$3,641
Operating expenses		
Operations	1,893	1,751
Depreciation and amortization	577	523
	2,470	2,274
Income from operations	1,462	1,367
Interest expense	652	671
Net income	$810	$696

See accompanying notes

Statement of Limited Partners' Equity

For the year ended December 31, (Thousands of dollars)	2005	2004
Balance, beginning of year	$747	$51
Net income	810	696
	1,557	747
Partners' withdrawals	(1,009)	-
Balance, end of year	$548	$747

See accompanying notes

Saskatoon 2 Properties Limited Partnership

Statement of Financial Position

As at December 31, (Thousands of dollars)	2005	2004
Assets		
Current assets		
Cash	$554	$311
Cash held in trust	-	400
Accounts receivable	45	76
Current portion of loan receivable (Note 3)	-	16
Prepaid expenses	24	31
	623	834
Loan receivable (Note 3)	-	172
Leasing costs and tenant inducements (Note 4)	886	790
Real estate assets (Note 5)	9,677	10,010
	$11,186	$11,806
Liabilities and limited partners' equity		
Current liabilities		
Accounts payable and accrued liabilities	$262	$380
Current portion of long-term debt (Note 6)	328	308
	590	688
Deferred revenue	21	16
Long-term debt (Note 6)	10,027	10,355
	10,638	11,059
Limited partners' equity		
Partners' capital, 101 units issued at $1.00 per unit	-	-
Partners' equity	548	747
	548	747
	$11,186	$11,806

See accompanying notes

On behalf of the Partnership

Robert Watson

Randy Stephanson

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2005	2004
Cash provided by (used in):		
Operating activities		
Net income	**$810**	$696
Items not affecting cash (Note 7)	**577**	523
Other operating items (Note 8)	**(75)**	183
	1,312	1,402
Financing activities		
Partners' withdrawals	**(1,009)**	-
Repayment of long-term debt	**(308)**	(290)
	(1,317)	(290)
Investing activities		
Issuance of loan receivable	**-**	(195)
Repayment of loan receivable	**188**	7
Leasing costs and tenant inducements	**(213)**	(763)
Real estate expenditures	**(127)**	(118)
	(152)	(1,069)
Increase (decrease) in cash	**(157)**	43
Cash, beginning of year	**711**	668
Cash, end of year	**$554**	$711
Interest paid	**$651**	$671

See Accompanying Notes

Notes to Financial Statements

Note 1 – Description of Business

Saskatoon 2 Properties Limited Partnership (the Partnership) is registered as a limited partnership in accordance with the *Partnership Act* of the Province of Saskatchewan. The Partnership was established for the purpose of acquiring and operating the Saskatoon Square (the rental property) located in Saskatoon, Saskatchewan. Colliers McClocklin Real Estate Corp. has been appointed as the rental property manager. The rental property is registered in the name of the Saskatoon 2 Management Ltd., general partner, who holds its interest in the rental property as the bare trustee for the Partnership.

The financial statements include only the assets, liabilities, capital, revenue and expenses of the Partnership and do not include any other assets, liabilities, revenues or expenses of the Partners.

Note 2 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles generally accepted in Canada.

Leasing costs and tenant inducements

Tenant inducement costs are capitalized and amortized over the term of the related leases.

Real estate assets

Real estate assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Buildings	25 years
Deferred financing costs	5 years
Parkade lease	17 years

Revenue recognition

The Partnership recognizes rental revenues evenly throughout the term of the lease.

Income taxes

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the limited partners.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management periodically reviews the carrying value of the Partnership's real estate assets and if management determines that the carrying value cannot be recovered from future cash flows, the unrecoverable amount is written off against income. Periodic reviews are also done of the estimated useful lives of the real estate assets to determine an adequate charge against income for amortization expense. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Loan receivable

	2005	2004
	(Thousands of dollars)	
Loan receivable from Saskatoon Health Region	-	$188
Less current portion of loan receivable	-	(16)
	-	$172

The loan receivable was paid in full during 2005.

Note 4 – Leasing costs and tenant inducements

	2005	2004
	(Thousands of dollars)	
Leasing costs and tenant inducements	$1,068	$855
Less accumulated amortization	182	65
	$886	$790

Amortization for the year totalled $117 thousand (2004 - $65 thousand).

Notes to Financial Statements

Note 5 – Real estate assets

	Cost	Accumulated depreciation and amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Buildings	**$9,091**	**$804**	**$8,287**	$8,519
Deferred financing costs	**191**	**86**	**105**	143
Land	**367**	**-**	**367**	367
Parkade lease	**1,060**	**142**	**918**	981
	$10,709	**$1,032**	**$9,677**	$10,010

Depreciation and amortization for the year totaled $460 thousand (2004 - $458 thousand).

Note 6 – Long-term debt

	2005	2004
	(Thousands of dollars)	
Due to The Manufacturers Life Insurance Company, secured by way of a first mortgage on the real property, bearing interest at 6.28% amortized over 20 years; blended monthly installments of $80,078; due October, 2013	**$10,355**	$10,663
Less current portion of long-term debt	**328**	308
	$10,027	$10,355

Approximate principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2006	$328
2007	349
2008	371
2009	396
2010	420

Notes to Financial Statements

Note 7 – Items not affecting cash

	2005	2004
	(Thousands of dollars)	
Depreciation and amortization	$577	$523

Note 8 – Other operating items

	2005	2004
	(Thousands of dollars)	
Changes in non-cash working capital:		
Accounts receivable	$31	$(72)
Prepaid expenses	7	(8)
Accounts payable and accrued liabilities	(118)	261
Deferred revenue	5	2
	$(75)	$183

Note 9 – Financial instruments

Fair value

The carrying amounts of cash, accounts receivable and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The carrying value of long term debt approximates its fair value which is determined as the amount at which it could be exchanged between willing parties, based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities.

Note 10 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and the Saskatchewan Telecommunications Holding Corporation (collectively referred to as "related parties"). Also included are transactions with corporations and partnerships controlled by members of the Limited Partnership.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding with corporations and partnerships controlled by members of the Limited Partnership and entities under common or joint control or significant influence with the Government of Saskatchewan are as follows:

Notes to Financial Statements

Note 10 – Related party transactions, continued

	2005	2004
	(Thousands of dollars)	
Operating revenues	$1,855	$1,759
Accounts receivable	17	32
Accounts payable and accrued liabilities	1	4

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes hereto.

Note 11 – Commitments and contingencies

The Partnership is committed to an annual payment of $20,876 pursuant to an elevator maintenance contract expiring September 30, 2009. The payments are subject to annual escalation changes.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2005 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Note 12 – Comparative figures

Certain of the 2004 figures have been reclassified to conform to the current year's presentation.